

# Quality U.S. Ingredients Score With Hungary's Food Processing Industry

By Ferenc Nemes

Given Hungary's recent history, it is not any surprise that private industry now accounts for 80 percent of its gross domestic product. Hungary began shifting toward multi-party democracy and a market-oriented economy before the collapse of the Soviet Union in 1991. Since then, Hungary has pursued close political and economic ties to Western Europe. Hungary joined the North Atlantic Treaty Organization in 1999 and is on the short list for European Union (EU) membership.

The country's food and beverage industry sector reflects a flourishing economy.

For U.S. exporters, this developing food sector translates to a market that needs a continuous flow of raw, intermediate and other materials to maintain its momentum. Baking ingredients, confectionery, dairy products and out-of-season produce are in demand from the United States.

In Hungary, large multinational companies dominate the sweetener, sugar, brewing, soft-drink, vegetable oil and tobacco industries, while smaller domestic companies tend to concentrate in the meat, poultry, dairy processing and canning subsectors.

Relatively few large companies account for 67 percent of the food sector's output. Conversely, 90 percent of the country's 8,300 processors employ 10 or fewer people and account for the remaining output. Regardless of size, the companies need a range of ingredients such as almonds, raisins, pork, tobacco and fish.

## Gaining Entrance

All food imports, excluding fresh produce, must be registered and approved by the Hungarian food testing institute (OETI). Testing for approval, which usually takes 30 days, must be completed before the product is allowed on the market. Registration costs about \$560 per product.

If the imported product meets Hungarian food regulations, it receives an OETI number that allows the product to be marketed for three years. After that time, the product must be re-tested and issued a new number.

Another barrier for U.S. exports is the relatively high import tariffs vs. the preferential tariffs given to a number of Hungary's free-trade partners. For example, sales of California wines and Florida grapefruit have been restricted by these high import tariffs.

There is light at the end of the tunnel, however. On Jan. 30, 2002, the United States and Hungary signed off on trade concessions in which Hungary will reduce or suspend \$180 million yearly in tariffs on key U.S. agricultural and industrial exports.

New animal health regulations and the content rules for products derived from biotechnology may jeopardize imports of products containing soybean protein, as well as pet food and pet food ingredients.

The main competition for U.S. products comes from Germany, the Netherlands, Austria and Italy and, except for fruits and vegetables, neighboring countries such as Poland and Slovakia.

## Size Determines Method of Sourcing

Basically, the Hungarian import industry uses three channels to reach the customer:

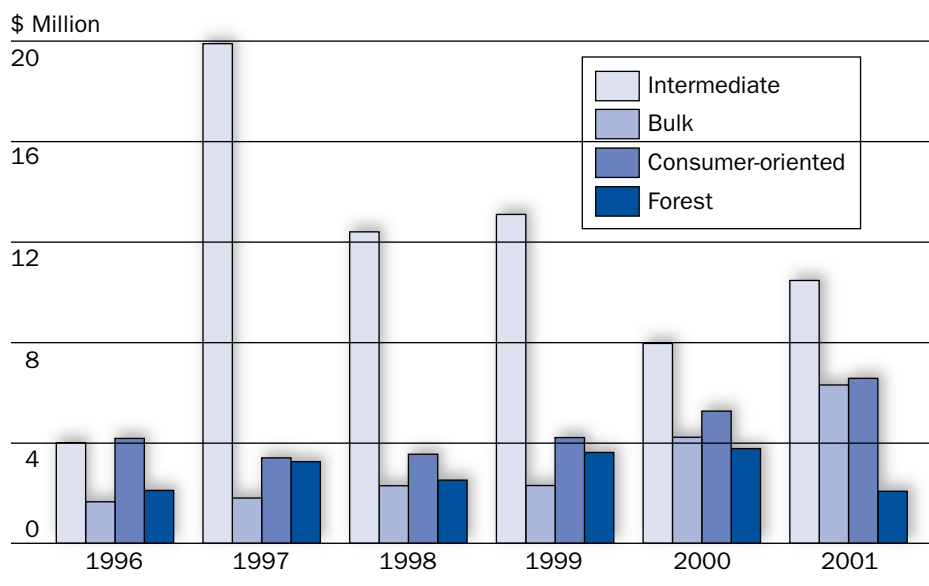
- Direct imports, usually by large, multinational firms
- Imports from other European importers



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## HUNGARY'S EXPORTS AND DISPOSABLE INCOME ARE INCREASING.

### Ingredients Lead U.S. Exports to Hungary



- Shipments via local importer brokers or agents

Since bigger and multinational firms usually source their own ingredients, U.S. exporters should contact them directly. Smaller companies tend to work with import agents or importers.

Due to Hungary's size (it is slightly smaller than Indiana), processors buy directly from the importer, bypassing any middle distributor. Major supermarkets and hypermarkets buy directly from processors or through their own purchasing companies. They frequently outsource for both name-brand and store-brand products. Cash-and-carry companies often substitute as wholesalers in supplying smaller retailers and institutions.

There is a small but growing food service sector. Companies in this sector specialize in supplying the hotel, restaurant and institutional (HRI) market. In addition to their importer and distributor functions, they also often produce semi-processed and

finished foods.

Most processors who sell to HRI customers deliver directly to their major purchasers, while wholesalers, cash-and-carry warehouses and club stores handle smaller accounts.

It is vital for exporters to promote a new product through visits to processors or educational seminars. Targeting receptive groups is helpful. Buyers who understand the quality standards, grades and different uses for U.S. ingredients will be more receptive to trying new products.

### Population Down, Food Business Up

Though Hungary's population is slowly decreasing, continued growth in the food processing sector is expected, because exports and disposable income are increasing.

U.S. exporters should keep an eye out for value-added export opportunities as Hungary's economy develops. Only a few processed foods are being imported at this time. Hungarians don't eat out regularly, but

lifestyle changes are leading to greater demand for convenience foods. A growing number of health-conscious people are eating more salads, breakfast cereals, seafood and low-fat items.

Hungarian consumers who do dine out are becoming increasingly receptive to Chinese, Mexican, Tex-Mex, Mediterranean and other foreign cuisines.

In the functional food category, vitamin-enriched products are now available at upscale supermarkets. Selenium and iodine supplements are used in salt, bread and beverages. Multivitamin, trace element and instant drinks are also popular.

### Not Hungry for Organics, Yet

Hungary exported \$8.2 million worth of organic crops (grains, pumpkin seed, millet, herbs and spices, paprika, frozen fruit, fruit preserves and wines) in 2001. Thus far, few Hungarians are interested in the perceived benefits of consuming organic products, and no U.S. certifier or supplier is registered in Hungary.

Hungary's Biokultura Association deals with the organization of activities, education, professional training, development and promotion of organic production.

Biokontroll Hungaria Kozhasznu Tarsasag (Biokontroll Kht.) inspects and certifies most organic producers and products in Hungary. Biokontroll Kht. designates a public-use company akin to a U.S. nonprofit organization. Certifications by foreign organizations may be valid if their organic standards meet those of Hungary and if they are registered with the Ministry of Agriculture and Biokontroll Kht.

Organic imports have a simple approval process if the product is certified by an EU certifying organization or by an EU-approved third country organization. The United States is not on this list.

Once an organic market develops, suppliers would need to export products via a Hungarian importer that is a member of the Biokultura Association and is registered by Biokontroll Kht.

### Continued Growth Expected

Hungary has a competitive, export-oriented food processing sector, based on several factors:

- Food processing is becoming more specialized and concentrated in Hungary and surrounding countries.
- High export subsidies from the EU aid the export sector.
- Preferential trade agreements with several countries support trade.
- Increasing presence of large, multinational food processing companies enhance Hungary's competitiveness.

In addition, the volume of agricultural and food imports increased by 50 percent over the last 10 years, and is expected to continue to grow as consumers want more variety and a continuous supply of seasonal produce.

### Feed, Confectionery, Produce Lead Hungary's Imports

Food Processing Industry Subsector	Production Exported (Percent)	Imports (Percent)
Feed milling	23	52
Chocolate, candy & other confectionery	17.2	22.8
Fruits & vegetables	52	12.4
Dairy	15.3	6.2
Meat	33.3	5.4
Brewing	0.7	3
Wine	62	2.7
Soft drink	8.2	2.5
Tobacco	Negligible	2
Flour milling	13.5	1.5
Poultry	42.9	0.9

### Future May Be More Consumer-Oriented

While the share of bulk and intermediate products, as a percentage of total imports, is gradually decreasing, imports of consumer-oriented, forest and fishery products are growing.

U.S. products already in the market that will keep having good sales potential include almonds and raisins, because of their high quality. Sales of U.S. peanuts may be enhanced in the long run by demand for better quality.

Other products with good sales potential include alcoholic beverages, pet food and tobacco. Some years, there is a market for pork and edible viscera.

Although the snack and confectionery market categories are dominated by domestic and EU products, U.S. exporters with innovative products and packaging could make headway.

Products with good sales potential not yet present among imports include high-quality U.S. beef and seafood for Hungary's better hotels and restaurants. ■

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